

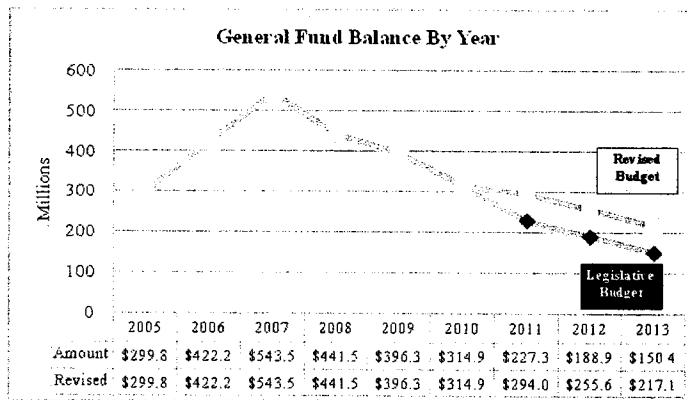
Financial Consideration

•SB 426, Treasure State Dividend Program

- On Ballot November 2012
- Applicable to FY 2013 and Beyond
- First Year to Impact FY 2014
- Tax Credits for Excess Fund Balance
- Trigger 125% of Budgeted Balance
- 50% of Excess to Tax Relief
- 50% of Excess Remains in Fund Balance
- Residential Property & Individual Income Tax Relief

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Impact on 2013 Biennium General Fund Balance



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Legislative Council Meeting
June 24, 2011

The revenue improvement for FY 2011 will increase the beginning general fund balance for the 2013 biennium. Without accurate details to explain the revenue improvement, it is unknown whether these changes are one-time or on-going. The causes for the potential increases will be analyzed later this fall when the tax return data are available for individual income taxpayers for calendar 2010.

Financial Consideration

Senate bill 426, by Senator Bayleat, was enacted by the 62nd Legislature. This legislation created the "Treasure State Taxpayer Dividend Program" with the provision the act be submitted to the qualified electors on the November 2012 ballot. This legislation is designed to refund surplus state government fund balance through an income tax credit mechanism. If approved by the electors, the legislation would be applicable to fiscal years 2013 and beyond.

The Department of Administration is required to certify to the budget director, by August 1 of each year, the amount of the unaudited general fund balance for the previous fiscal year. If this balance exceeds the budgeted balance by 125%, then tax credits for individual and property taxes paid are allowed to be claimed on subsequent tax return filings. It should be noted, however, that the excess balance must be at least \$5 million otherwise no tax credits are allowed. The legislation also specifies that one-half of the excess balance must be distributed "in the form of individual income tax credits related to property taxes paid on the taxpayer's principal residence and related to the taxpayer's individual income tax paid." The remaining one-half of the excess balance remains in the general fund ending fund balance.

The legislation defines the procedures to be used by the Department of Revenue to determine how much of the excess fund balance is to be used for residential property tax and individual income tax relief. This calculation is based on the ratio of the total amount to be refunded divided by the sum of total residential property and total individual income taxes. For example, if residential property tax collections were \$600 million and individual income tax collections were \$800 million and the excess amount was \$67.7 million, then residential property and individual income taxpayers would be allowed to claim an income tax credit in the subsequent year equivalent to 2.4% (\$67.7 million times 50% divided by (\$600 plus \$800 million) of their residential property and individual income taxes paid in the previous year. This tax credit is a refundable tax credit that applies to only the subsequent tax return filed. Any potential future tax credits are determined annually based on whether there is excess fund balance above the projected amount.

This is an important financial consideration for the 63rd Legislature. If the 2013 biennium general fund budget adopted by the 62nd Legislature develops as intended, then 50% of the FY 2011 additional estimated revenue (50% of \$67.7 million = \$33.8 million) discussed in this report would be used for residential property and individual income tax relief (assuming the referendum is approved by the voters in November 2012). Because taxpayers would claim the tax credit when filing their tax year 2013 return, the impact of tax relief would not be realized until FY 2014.

Figure 7

Anticipated Additional Revenue - FY 2011		
Tax Source	Range in Millions	
Individual Income Tax	\$49.601	\$51.598
Corporation Income Tax	<u>18.078</u>	<u>26.065</u>
Totals	\$67.679	\$77.663